

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Hubbardston	County Ionia
Audit Date 3/31/05	Opinion Date 5/23/05	Date Accountant Report Submitted to State: 8/19/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.			
Street Address 108 N. Spring St.	City St. Johns	State MI	ZIP 48879
Accountant Signature <i>Abraham & Gaffney, P.C. Aaron M. Jones</i>		Date 8/16/05	

**Village of Hubbardston
Ionia County, Michigan**

FINANCIAL STATEMENTS

March 31, 2005

Village of Hubbardston
Ionia County, Michigan

March 31, 2005

VILLAGE COUNCIL

Janet Dailey	President
Susan Geselman	Treasurer
Unassigned	Clerk
Mary Melton	Trustee
Mary Dalton	Trustee
Terry Norton	Trustee
Rose Clark	Trustee

Village of Hubbardston

TABLE OF CONTENTS

March 31, 2005

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	i
MANAGEMENT'S DISCUSSION AND ANALYSIS	ii-vii
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Funds Balance Sheet	3
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6
Notes to Financial Statements	7-14
REQUIRED SUPPLEMENTARY INFORMATION	
GENERAL FUND	
Budgetary Comparison Schedule	15
MAJOR STREET FUND	
Budgetary Comparison Schedule	16
LOCAL STREET FUND	
Budgetary Comparison Schedule	17
FIRE FUND	
Budgetary Comparison Schedule	18

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of Certified
Public Accountants
and
Michigan Association of
Certified Public Accountants

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA

INDEPENDENT AUDITOR'S REPORT

To the Honorable President and
Members of the Village Council
Village of Hubbardston
Hubbardston, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Village of Hubbardston, Michigan as of and for the year ended March 31, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Hubbardston's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Village of Hubbardston, Michigan as of March 31, 2005, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the Village has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of April 1, 2004, along with all related statements and interpretations.

The management's discussion and analysis and budgetary comparison information as identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 23, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2005

The following is a discussion and analysis of Village of Hubbardston's (the Village's) financial performance and position, providing an overview of the activities for the year ended March 31, 2005. This analysis should be read in conjunction with the *Independent Auditors Report* and with the Village's financial statements, which follow this section. Fiscal year 2005 represents the first year the Village implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended by GASB Statement No. 37 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments - Omnibus* and Statement No. 38 *Certain Financial Statement Note Disclosures*. Therefore, this discussion and analysis provides few comparisons with the previous year. Future reports will include financial comparisons to the prior as required by GASB.

FINANCIAL HIGHLIGHTS

Government-wide:

- Total net assets were \$1,302,261.

Fund Level:

- At the close of the fiscal year, the Village's governmental funds reported a combined ending fund balance of \$431,050 with \$5,737 being reserved for specific purposes.
- The General Fund realized \$76,438 more in revenues than anticipated for the fiscal year. The General Fund operations expended \$16,852 more than appropriated.
- Overall, the General Fund balance increased by \$9,270 to \$278,431 with \$276,079 being undesignated and available for general purposes.

Capital and Long-term Debt Activities:

- The primary government issued no new debt issues for the year.
- The Village remains well below its authorized legal debt limit.
- The total addition to the capital asset schedule for the primary government was \$45,400.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Village's annual financial report. The annual financial report of the Village consists of the following components: 1) *Independent Auditors Report*; 2) *Management's Discussion and Analysis* and 3) the *Basic Financial Statements* (government-wide financial statements, fund financial statements, notes to the financial statements), and *Required Supplementary Information* such as budget to actual comparisons for the General Fund and major Special Revenue Funds.

Government-wide Financial Statements (Reporting the Village as a Whole)

The set of government-wide financial statements are made up of the Statement of Net Assets and the Statement of Activities, which report information about the Village as a whole, and about its activities. Their purpose is to assist in answering the question, is the Village, in its entirety, better or worse off as a result of this fiscal year's activities? These statements, which include all non-fiduciary assets and liabilities, are reported on the *accrual basis of accounting*, similar to a private business. This means revenues are accounted for when they are *earned* and expenses are accounted for when *incurred*, regardless of when the actual cash is received or disbursed.

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2005

The Statement of Net Assets (page 1) presents all of the Village's assets and liabilities, recording the difference between the two as "net assets". Over time, increases or decreases in net assets measure whether the Village's financial position is improving or deteriorating.

The Statement of Activities (page 2) presents information showing how the Village's net assets changed during 2005. All changes in net assets are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in these statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes and earned but unused employee annual leave.

Both statements report the following activities:

- **Governmental Activities** - The Village's basic services are reported under this category. Taxes, charges for services and intergovernmental revenue primarily fund these services. The Village's general government departments, law enforcement, economic development, Village improvements, street improvements, recreation activities, and other Village-wide elected official operations are reported under these activities.

As stated previously, the government-wide statements report on an *accrual* basis of accounting. However, the governmental funds report on a *modified accrual* basis. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources.

Because of the different basis of accounting between the fund statements (described below) and the government-wide statements, pages 4 and 6 present reconciliations between the two statement types. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities (depreciation) are not reported on the fund financial statements of the governmental fund. Capital assets and depreciation expense are reported on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the fund financial statements of the governmental funds.

Fund Financial Statements (Reporting the Village's Major Funds)

The fund financial statements, which begin on page 3, provide information on the Village's significant (major) funds, and aggregated nonmajor funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Village uses to keep track of specific sources of funding and spending for a particular purpose. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar.

The *basic financial statements* report major funds as defined by the Government Accounting Standards Board (GASB) in separate columns. Statement 34 defines a "major fund" as the General Fund, and any governmental or enterprise fund which has either total assets, total liabilities, total revenues or total expenditures/expenses that equal at least ten (10) percent of those categories for either the governmental funds or the enterprise funds *and* where the individual fund total also exceeds five (5) percent of those categories for governmental and enterprise funds combined. The major funds for the Village of Hubbardston include the General Fund, the Major Street Fund, the Local Street Fund, and the Fire Fund. The Village does not have any funds that are classified as nonmajor.

Village of Hubbardston

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2005

- **Governmental Funds** - All of the Village's basic services are reported in the governmental funds. The focus of these funds is how cash and other financial assets that can be readily converted to cash, flow in and out during the course of the fiscal year and how the balances left at year-end are available for spending on future services. Consequently, the governmental fund financial statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that may be expended in the near future to finance the Village's programs. Governmental funds include the *General Fund*, as well as *Special Revenue Funds* (use of fund balance is restricted).

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements. The Notes can be found beginning on page 7 of this report.

Required Supplementary Information

Following the Basic Financial Statements is additional Required Supplementary Information (RSI), which further explains and supports the information in the financial statements. RSI includes a budgetary comparison schedules for the General Fund and the major special revenue funds.

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

As previously stated, the Village of Hubbardston's total net assets were \$1,302,261 at the end of this year's operations.

Net Assets as of March 31, 2005

	<u>Governmental Activities</u>
Current Assets	\$ 433,806
Noncurrent Assets	871,211
Total Assets	<u>\$ 1,305,017</u>
Current Liabilities	\$ 2,756
Total Liabilities	<u>\$ 2,756</u>
Net Assets	
Invested in Capital Assets	\$ 871,211
Restricted	133,030
Unrestricted	<u>298,020</u>
Total Net Assets	<u>\$ 1,302,261</u>

Village of Hubbardston

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2005

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Village's net assets changed during the fiscal year:

Changes in Net Assets for the Fiscal Year Ending March 31, 2005

	Governmental Activities
Revenues	
Program Revenues	
Charges for Services	\$ 23,673
Operating Grants and Contributions	59,567
Capital Grants and Contributions	128,635
General Revenues	
Property Taxes	31,211
State Shared Revenue	38,349
Investment Earnings	2,583
Miscellaneous	<u>86</u>
Total Revenues	284,104
Expenses	
General Government	25,779
Public Safety	130,295
Public Works	61,618
Recreation and Cultural	9,682
Other	<u>7,283</u>
Total Expenses	<u>234,657</u>
Increase in Net Assets	49,447
Net Assets - Beginning	<u>1,252,814</u>
Net Assets - Ending	<u>\$ 1,302,261</u>

Governmental Activities:

The result of 2005 governmental activities was an increase of \$49,447 in net assets to \$1,302,261. Of the total governmental activities' net assets, \$871,211 is invested in capital assets and \$133,030 is reported as restricted, meaning these assets are legally committed for a specific purpose through statute, or by another authority outside the Village government. The balance of \$298,020 is listed as unrestricted, having no legal commitment.

Revenues:

The three largest revenue categories were capital grants and contributions at 45%, operating grants and contributions at 21%, and state shared revenue at 13%. The Village levied one property tax millage for the year ended March 31, 2005, for general government operations at 8.5000 mills, which is not assigned to any particular activity.

Village of Hubbardston

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2005

Expenses:

Public Safety is the largest governmental activity, expending approximately 56% of the governmental activities total on fire and rescue services. Public works is the second largest governmental activity, expending approximately 26% of the governmental activities total and includes the Public Works department as well as public street maintenance and improvement activities.

FINANCIAL ANALYSIS OF THE VILLAGE'S MAJOR FUNDS

As the Village completed 2005, its governmental funds reported *combined* fund balances of \$431,050. This is a net increase of \$52,558. The net changes are summarized in the following chart:

	General Fund	Major Street	Local Street	Fire
Fund Balance 3/31/04	\$ 269,161	\$ 34,902	\$ 58,907	\$ 15,522
Fund Balance 3/31/05	\$ 278,431	\$ 66,209	\$ 66,821	\$ 19,589
Net Change	\$ 9,270	\$ 31,307	\$ 7,914	\$ 4,067

General Fund:

The General Fund is the chief operating fund of the Village. Unless otherwise required by statute, contractual agreement or Council policy, all Village revenues and expenditures are recorded in the General Fund. As of March 31, 2005, the General Fund reported a fund balance of \$278,431. This amount is an increase of \$9,270 from the fund balance of \$269,161 reported as of March 31, 2004. The 2005 original and final budgets called for a \$34,316 use of fund balance. \$2,352 of fund balance is reported as reserved.

General Fund Budgetary Highlights:

The Village of Hubbardston's budget is a dynamic document. Although adopted prior to April 1 each year, the budget is routinely amended during the course of the year to reflect changing operational demands.

Actual General Fund revenues totaled \$76,438. The Village did not adopt a revenue budget for the current year. The actual General Fund expenditures totaled \$51,168 and transfers out totaled \$16,000. The Village originally adopted a total expenditure budget (including transfers) of \$34,316. The Village's final expenditure budget was the same as the original budget during 2005, resulting in a total negative variance for expenditures and other financing uses of \$32,852.

Village of Hubbardston

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2005

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - At the end of year 2005, the Village had invested \$871,211, net of accumulated depreciation, in a broad range of capital assets (see table below). Accumulated depreciation was \$678,257. Depreciation charges for the fiscal year totaled \$48,511. Additional information related to capital assets is detailed in Note D of the Financial Statements. Net book value of capital assets at March 31, 2005 was as follows:

	Governmental Activities
Land	\$ 36,100
Infrastructure, net	660,970
Buildings and improvements, net	34,296
Vehicles, net	62,592
Machinery and equipment, net	<u>77,253</u>
Capital assets, net	<u>\$ 871,211</u>

Long-term Debt - As of March 31, 2005, the Village had no debt outstanding for the primary government.

GOVERNMENT ECONOMIC OUTLOOK

The State of Michigan continues to have difficulty in balancing their budget. Any shortfalls in projected revenues could affect our revenue sharing funds that we receive. Our budgets have already been cut more than once and any further cuts would affect the services that we provide to the citizens of the Village of Hubbardston.

Other factors that the Village is aware of are:

- Property tax revenue does not seem to be keeping pace with inflation.
- Investment earnings are at historically low levels due to low market interest rates, decreasing by nearly 80% over the past four years.
- Health insurance premiums are rising much faster than the rate of inflation.
- Utility costs are rising faster than the rate of inflation.
- Gasoline costs have escalated over the past three years for the DPW and Fire Department.
- The closing of the Greenville Electrolux factory bears effects on the economy of the Village as fifteen (15) employees of the factory are residents of the Village.

These and many other factors were considered in adopting the Budget for 2005. The Village Council continues to look for ways to increase efficiencies and reduce the cost of doing business.

CONTACTING THE VILLAGE

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Village's finances and to demonstrate the Village's accountability for the money it receives. If there are questions about this report, or a need for additional information, contact the Village offices at (989) 981-6141.

BASIC FINANCIAL STATEMENTS

Village of Hubbardston
STATEMENT OF NET ASSETS
March 31, 2005

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash	\$ 318,986
Investments	79,930
Accounts receivable	10,900
Due from other governmental units	18,253
Prepaid expenses	<u>5,737</u>
Total current assets	433,806
Noncurrent assets	
Capital assets, net	<u>871,211</u>
TOTAL ASSETS	1,305,017
LIABILITIES	
Current liabilities	
Accounts payable	<u>2,756</u>
NET ASSETS	
Invested in capital assets	871,211
Restricted for streets	133,030
Unrestricted	<u>298,020</u>
TOTAL NET ASSETS	<u><u>\$ 1,302,261</u></u>

See accompanying notes to financial statements.

Village of Hubbardston

STATEMENT OF ACTIVITIES

Year Ended March 31, 2005

Functions/Programs	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Governmental activities:					
General government	\$ 25,779	\$ 2,469	\$ 2,207	\$ -	\$ (21,103)
Public safety	130,295	21,204	6,507	128,635	26,051
Public works	61,618	-	50,853	-	(10,765)
Recreation and cultural	9,682	-	-	-	(9,682)
Other	7,283	-	-	-	(7,283)
Total governmental activities	<u>\$ 234,657</u>	<u>\$ 23,673</u>	<u>\$ 59,567</u>	<u>\$ 128,635</u>	<u>(22,782)</u>
			General revenues:		
			Property taxes		31,211
			State shared revenue		38,349
			Investment earnings		2,583
			Other		86
			Total general revenues		<u>72,229</u>
			Change in net assets		49,447
			Net assets, beginning of the year		<u>1,252,814</u>
			Net assets, end of the year		<u>\$ 1,302,261</u>

See accompanying notes to financial statements.

Village of Hubbardston

GOVERNMENTAL FUNDS BALANCE SHEET

March 31, 2005

	Primary Government Special Revenue				Total Governmental Funds
	General	Major Street	Local Street	Fire	
ASSETS					
Cash	\$ 188,050	\$ 59,420	\$ 65,060	\$ 6,456	\$ 318,986
Investments	79,930	-	-	-	79,930
Accounts receivable	-	-	-	10,900	10,900
Due from other governmental units	9,157	6,987	2,109	-	18,253
Prepaid expenditures	2,352	-	-	3,385	5,737
TOTAL ASSETS	\$ 279,489	\$ 66,407	\$ 67,169	\$ 20,741	\$ 433,806
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 1,058	\$ 198	\$ 348	\$ 1,152	\$ 2,756
FUND BALANCES					
Reserved for prepaid expenditures	2,352	-	-	3,385	5,737
Unreserved					
Undesignated, reported in:					
General Fund	276,079	-	-	-	276,079
Special Revenue Funds	-	66,209	66,821	16,204	149,234
TOTAL FUND BALANCES	278,431	66,209	66,821	19,589	431,050
TOTAL LIABILITIES AND FUND BALANCES	\$ 279,489	\$ 66,407	\$ 67,169	\$ 20,741	\$ 433,806

See accompanying notes to financial statements.

Village of Hubbardston

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

March 31, 2005

Total fund balance - governmental funds \$ 431,050

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 1,549,468	
Accumulated depreciation is	<u>(678,257)</u>	
Capital assets, net		<u>871,211</u>
Net assets of governmental activities		<u><u>\$ 1,302,261</u></u>

See accompanying notes to financial statements.

Village of Hubbardston

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended March 31, 2005

	Primary Government				
	Special Revenue			Total	
	General	Major Street	Local Street	Fire	Governmental Funds
REVENUES					
Taxes	\$ 31,211	\$ -	\$ -	\$ -	\$ 31,211
Licenses and permits	686	-	-	-	686
Intergovernmental	40,556	39,071	11,782	132,942	224,351
Charges for services	1,783	-	-	21,204	22,987
Interest and rents	2,116	157	208	102	2,583
Other	86	-	-	2,200	2,286
TOTAL REVENUES	76,438	39,228	11,990	156,448	284,104
EXPENDITURES					
General government	19,126	-	-	-	19,126
Public safety	-	-	-	168,381	168,381
Public works	16,297	7,921	4,076	-	28,294
Recreation and cultural	8,462	-	-	-	8,462
Other	7,283	-	-	-	7,283
TOTAL EXPENDITURES	51,168	7,921	4,076	168,381	231,546
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	25,270	31,307	7,914	(11,933)	52,558
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	16,000	16,000
Transfers out	(16,000)	-	-	-	(16,000)
TOTAL OTHER FINANCING SOURCES (USES)	(16,000)	-0-	-0-	16,000	-0-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	9,270	31,307	7,914	4,067	52,558
Fund balances, beginning of year	269,161	34,902	58,907	15,522	378,492
Fund balances, end of year	\$278,431	\$ 66,209	\$ 66,821	\$ 19,589	\$ 431,050

See accompanying notes to financial statements.

Village of Hubbardston

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended March 31, 2005

Net change in fund balances - total governmental funds	\$	52,558
---	-----------	---------------

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 45,400	
Depreciation expense	<u>(48,511)</u>	
Excess of depreciation expense over capital outlay		<u>(3,111)</u>

Change in net assets of governmental activities	\$	<u>49,447</u>
--	-----------	----------------------

See accompanying notes to financial statements.

Village of Hubbardston

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Hubbardston, Michigan is organized as a Village under provisions of the constitution and general law of the State of Michigan. The Village is one of seven (7) villages in Ionia County. The Village operates under an elected Village Council which consists of a President, Clerk, Treasurer, and four trustees and provides services in many areas including fire protection, roads, parks, and public works.

The financial statements of the Village have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to Village governments. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Village's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity*; and *Statement on Michigan Governmental Accounting and Auditing No. 5*; these financial statements present all financial activities of the Village of Hubbardston (primary government). The Village has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of the Village of Hubbardston contain all of the funds controlled by the Village Council.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the government as a whole. For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Village does not have any activities that would be considered to be business-type activities.

The statement of activities presents the direct functional expenses of the primary government and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Village's individual major funds and aggregated nonmajor funds, if any. Major individual governmental funds are reported as separate columns in the fund financial statements. All of the Village's funds were considered major for the fiscal year ended March 31, 2005.

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS - CONTINUED

The major funds of the Village are:

- a. The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Major Street Fund is used to account for the financial resources that are used for repairs and maintenance of the Village's major streets.
- c. The Local Street Fund is used to account for the financial resources used for repairs and maintenance of the Village's local streets.
- d. The Fire Fund is used to account for the financial resources used for operation of the Village Fire Department.

4. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

5. Basis of Accounting

Basis of accounting refers to when revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are property taxes, special assessments, and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Village has elected not to follow subsequent private-sector guidance.

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Budgets and Budgetary Accounting

The General Fund and Special Revenue budgets shown in the required supplementary information to the financial statements were prepared on a basis not substantially different than the basis used to reflect actual results.

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to April 1, the budget is legally adopted on a departmental (activity) level. After the budget is adopted all transfers of budgeted amounts between activities or any revisions that alter the total expenditures of the fund or activity must be approved by the Village Council.
- b. Formal budgetary integration is employed as a management control device during the year.
- c. The Village does not employ encumbrance accounting as an extension of formal budgetary integration. Appropriations unused at March 31 are not carried forward to the following fiscal year.
- d. Budgeted amounts are reported as originally adopted by the Village Council during the year. There were no amendments to the originally adopted budget.

7. Cash, Cash Equivalents, and Investments

Cash consists of checking and savings accounts.

Cash equivalents are temporary investments that consist of various money market checking accounts, certificates of deposit with an original maturity of 90 days or less, and mutual funds. The cash and cash equivalents are recorded at market value.

Investments consist of certificates of deposit with an original maturity of greater than 90 days. Investments are recorded at market value in accordance with the early implementation of GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

8. Property Tax

The Village of Hubbardston bills and collects its own property tax levy. The Village's property tax revenue recognition policy and related tax calendar disclosures are as follows:

The property taxes attach as an enforceable lien on property as of July 1. Taxes are levied July 1 and are payable through September 1. All real property taxes not paid by September 15 are deemed delinquent. Delinquent real property taxes are turned over to the Ionia and Clinton County Treasurers. The Ionia and Clinton County Treasurers remit payment to all taxing units on all delinquent real property taxes. Delinquent personal property taxes are retained by the Village for subsequent collection. Property taxes are recognized as revenues in the period for which they are levied.

The Village is permitted to levy taxes up to 8.55 mills (\$8.55 per \$1,000 of taxable valuation) for general governmental service and additional amounts for debt service. For the year ended March 31, 2005, the Village levied 8.50 mills per \$1,000 of assessed valuation for general governmental services. The total taxable value for the 2004 levy for property within the Village was \$3,657,606.

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Interfund Transactions

During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements.

10. Capital Assets

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and improvements	20 - 40 years
Machinery, furniture, and equipment	3 - 20 years
Vehicles	10 - 20 years
Infrastructure – streets, bridges, and sidewalks	20 - 50 years

11. Comparative Data

Comparative data has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

12. Accounting Change

As of April 1, 2004, the Village implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (Statement) along with all related statements and interpretations. Some of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Village's overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Village's activities have been provided. Reconciliations are presented between the governmental fund level (modified accrual) and government-wide (full accrual) statements since their measurement focus is not the same.
- The fund financial statements focus on major funds rather than fund types.

This implementation has also required certain disclosures to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34 based on GASB Statement No. 38. Certain note disclosures have been added and/or amended, including descriptions of activities of major funds and interfund balances and transactions, and various other disclosures.

Village of Hubbardston

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Village is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association or Government National Mortgage Association.

As of March 31, 2005, the carrying amounts and bank balances for each type of bank account are as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash		
Checking accounts	\$ 313,901	\$ 320,502
Savings accounts	<u>5,085</u>	<u>5,085</u>
	318,986	325,587
Investments		
Certificates of deposit	<u>79,930</u>	<u>79,803</u>
	<u>\$ 398,916</u>	<u>\$ 405,390</u>

Deposits of the Village are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Village. As of March 31, 2005, the Village accounts were insured by the FDIC for \$277,988 and the amount of \$127,402 was uninsured and uncollateralized.

Village of Hubbardston

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Due to significantly higher cash flow at certain periods during the year, the amount the Village held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

NOTE C: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to General Fund from:	
Major Street Fund	\$ 828
Local Street Fund	<u>565</u>
	<u>\$ 1,393</u>
Transfers to Fire Fund from:	
General Fund	<u>\$ 16,000</u>

NOTE D: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2005 was as follows:

	Restated Balance <u>April 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>March 31, 2005</u>
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 36,100	\$ -	\$ -	\$ 36,100
Capital assets being depreciated:				
Infrastructure	1,185,000	-	-	1,185,000
Buildings and improvements	86,643	8,000	-	94,643
Vehicles	115,275	-	-	115,275
Machinery and equipment	<u>81,050</u>	<u>37,400</u>	<u>-</u>	<u>118,450</u>
Total capital assets being depreciated	1,467,968	45,400	-0-	1,513,368
Less accumulated depreciation for:				
Infrastructure	(491,885)	(32,145)	-	(524,030)
Buildings and improvements	(58,343)	(2,004)	-	(60,347)
Vehicles	(46,805)	(5,878)	-	(52,683)
Machinery and equipment	<u>(32,713)</u>	<u>(8,484)</u>	<u>-</u>	<u>(41,197)</u>
Total accumulated depreciation	<u>(629,746)</u>	<u>(48,511)</u>	<u>-0-</u>	<u>(678,257)</u>
Net capital assets being depreciated	<u>838,222</u>	<u>(3,111)</u>	<u>-0-</u>	<u>835,111</u>
Net capital assets - governmental activities	<u>\$ 874,322</u>	<u>\$ (3,111)</u>	<u>\$ -0-</u>	<u>\$ 871,211</u>

Village of Hubbardston
NOTES TO FINANCIAL STATEMENTS
March 31, 2005

NOTE D: CAPITAL ASSETS - CONTINUED

Depreciation expense was charged to the following governmental activities:

General government	\$ 6,653
Public safety	7,314
Public works	33,324
Recreation and cultural	<u>1,220</u>
Total depreciation expense	<u>\$ 48,511</u>

NOTE E: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the budgetary comparison schedules, the Village's budgeted expenditures in the General and major Special Revenue Funds have been shown at the activity level. The approved budgets of the Village have been adopted at the activity level and the function level for the General and Special Revenue Funds, respectively.

During the year ended March 31, 2005, the Village incurred expenditures in the General Fund and Special Revenue Funds in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General government			
Financial administration	\$ 3,891	\$ 5,448	\$ 1,557
Elections	-	172	172
Buildings and grounds	-	6,063	6,063
Public works			
Street lighting	6,500	7,614	1,114
Recreation and cultural			
Parks and recreation	5,050	8,462	3,412
Other financing uses			
Fringe benefits	825	989	164
Contracted services	1,000	3,750	2,750
Insurance	-	340	340
Other	600	2,204	1,604
Other financing uses			
Transfers out	-	16,000	16,000
Fire Fund			
Public safety	31,205	168,381	137,176

Village of Hubbardston

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE F: RISK MANAGEMENT

The Village participates in a pool, the Michigan Municipal Liability and Property Pool, with other municipalities for auto, property, inland marine, crime, and liability losses. The Village has no liability for additional assessments based on the claims filed against the pool nor do they have rights to dividends.

The Village is exposed to various risks of loss including workers' compensation losses for which the Village carries commercial insurance.

NOTE G: FUND EQUITY RESERVES

The following are the fund balance reserves as of March 31, 2005:

PRIMARY GOVERNMENT

General Fund

Reserved for prepaid expenditures	\$ 2,352
-----------------------------------	----------

Fire Fund

Reserved for prepaid expenditures	<u>3,385</u>
-----------------------------------	--------------

	<u><u>\$ 5,737</u></u>
--	------------------------

NOTE H: RESTRICTED NET ASSETS

Restrictions on net assets shown in the Government-wide financial statements indicate that restrictions imposed by the funding source preclude their use for unrestricted purposes. The following is the net asset restriction as of March 31, 2005:

PRIMARY GOVERNMENT

Governmental activities

Restricted for streets	<u><u>\$ 133,030</u></u>
------------------------	--------------------------

REQUIRED SUPPLEMENTARY INFORMATION

Village of Hubbardston

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ -	\$ -	\$ 31,211	\$ 31,211
Licenses and permits	-	-	686	686
Intergovernmental	-	-	40,556	40,556
Charges for services	-	-	1,783	1,783
Interest and rents	-	-	2,116	2,116
Other	-	-	86	86
TOTAL REVENUES	-0-	-0-	76,438	76,438
EXPENDITURES				
General government				
Legislative	5,040	5,040	5,003	37
Executive	1,575	1,575	1,443	132
Financial administration	3,891	3,891	5,448	(1,557)
Elections	-	-	172	(172)
Buildings and grounds	-	-	6,063	(6,063)
Other	1,075	1,075	997	78
Total general government	11,581	11,581	19,126	(7,545)
Public works				
Department of public works	8,760	8,760	8,683	77
Street lighting	6,500	6,500	7,614	(1,114)
Total public works	15,260	15,260	16,297	(1,037)
Recreation and cultural				
Parks and recreation	5,050	5,050	8,462	(3,412)
Other				
Fringe benefits	825	825	989	(164)
Contracted services	1,000	1,000	3,750	(2,750)
Insurance	-	-	340	(340)
Other	600	600	2,204	(1,604)
Total other	2,425	2,425	7,283	(4,858)
TOTAL EXPENDITURES	34,316	34,316	51,168	(16,852)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(34,316)	(34,316)	25,270	59,586
OTHER FINANCING (USES)				
Transfers out	-	-	(16,000)	(16,000)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(34,316)	(34,316)	9,270	43,586
Fund balance, beginning of year	269,161	269,161	269,161	-0-
Fund balance, end of year	\$ 234,845	\$ 234,845	\$ 278,431	\$ 43,586

Village of Hubbardston

Major Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2005

	<u>Budgeted Amounts</u>			<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Intergovernmental - State	\$ -	\$ -	\$ 39,071	\$ 39,071
Interest	-	-	157	157
TOTAL REVENUES	-0-	-0-	39,228	39,228
EXPENDITURES				
Public works	7,859	7,859	7,921	(62)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(7,859)	(7,859)	31,307	39,166
Fund balance, beginning of year	34,902	34,902	34,902	-0-
Fund balance, end of year	<u>\$ 27,043</u>	<u>\$ 27,043</u>	<u>\$ 66,209</u>	<u>\$ 39,166</u>

Village of Hubbardston

Local Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Intergovernmental - State	\$ -	\$ -	\$ 11,782	\$ 11,782
Interest	-	-	208	208
	<u>-</u>	<u>-</u>	<u>11,990</u>	<u>11,990</u>
TOTAL REVENUES	-0-	-0-	11,990	11,990
EXPENDITURES				
Public works	<u>7,944</u>	<u>7,944</u>	<u>4,076</u>	<u>3,868</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(7,944)	(7,944)	7,914	15,858
Fund balance, beginning of year	<u>58,907</u>	<u>58,907</u>	<u>58,907</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 50,963</u>	<u>\$ 50,963</u>	<u>\$ 66,821</u>	<u>\$ 15,858</u>

Village of Hubbardston

Fire Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 132,942	\$ 132,942
Charges for services	4,900	4,900	21,204	16,304
Interest	-	-	102	102
Other	-	-	2,200	2,200
TOTAL REVENUES	4,900	4,900	156,448	151,548
EXPENDITURES				
Public safety	31,205	31,205	168,381	(137,176)
EXCESS OF REVENUES (UNDER) EXPENDITURES	(26,305)	(26,305)	(11,933)	14,372
OTHER FINANCING SOURCES				
Transfers in	-	-	16,000	16,000
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	(26,305)	(26,305)	4,067	30,372
Fund balance, beginning of year	15,522	15,522	15,522	-0-
Fund balance (deficit), end of year	<u>\$ (10,783)</u>	<u>\$ (10,783)</u>	<u>\$ 19,589</u>	<u>\$ 30,372</u>

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member
American Institute of Certified
Public Accountants
and
Michigan Association of
Certified Public Accountants

REPORT ON INTERNAL CONTROL STRUCTURE

To the Honorable President and
Members of the Village Council
Village of Hubbardston
Hubbardston, Michigan

We have audited the basic financial statements of the Village of Hubbardston, Michigan as of and for the year ended March 31, 2005, and have issued our report thereon dated May 23, 2005.

In planning and performing our audit of the basic financial statements of the Village of Hubbardston for the year ended March 31, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal controls.

The management of the Village of Hubbardston is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of an internal controls are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use of disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of combined basic statements in accordance with accounting principles generally accepted in the United States of America. Because of inherent limitations in any internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

We noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal controls that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We noted the following reportable conditions.

BUDGETS

As noted in the required supplementary information to the financial statements, the Village had not properly adopted a complete budget for the year ended March 31, 2005 for the General and Special Revenue Funds. The Michigan Public Act 621 of 1978, as amended, provides that the Village adopt formal budgets for the applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amount appropriated. This adoption should include a formal budget resolution detailing the budgeted expenditures and the budgeted revenues and fund balance which will be utilized to finance budgeted expenditures. The Village did not adopt complete budgets for revenue line items in any of the governmental funds. This issue had been noted and reported in our previous audit comments.

We also noted that because the Village Council had not budgeted revenues in the Fire Fund, the adopted budget for that fund resulted in a projected fund deficit. We further noted that the Village did not periodically amend the budgets so as to avoid noncompliance with PA 621 of 1978.

We recommend the Village formally adopt and monitor budget for the General and all Special Revenue Funds. This would include a budget with both expenditures and the revenues by which to fund them and the formal approval of these budgets as detailed in the Council minutes. We also recommend budget amendments be made as necessary throughout the year.

COUNCIL ACTIVITIES

During our review of the Council minutes for the year, we noted that the Council did approve the bills for payment "as presented" but did not approve the check sequences or amount of expenditures and document this in the minutes. This issue had been noted and reported in our previous audit comments.

We recommend the Council minutes note the check sequences and total expenditures approved. This would provide a better audit trail and documentation of Council authorization of expenditures, and would also enhance internal controls.

INVESTMENT POLICY

During the course of our audit, it was noted the Village had not adopted an investment policy as required by Michigan Compiled Law. The policy was required to be adopted by September 30, 1998 and as of the last day of our fieldwork had not been adopted. This issue had been noted and reported in our previous audit comments.

We recommend the Village prepare a formal investment policy which complies with the compiled law and adopt it through Council action as soon as possible.

AUTHORIZED CHECK SIGNERS

During the course of our audit, it was noted that the Village does not require two (2) signatures to be present on all checks.

The main concept of an internal control structure is to assure that no one (1) individual handles all aspects of processing a transaction. The Village's procedure currently allows one (1) individual to process a transaction. This issue had been noted and reported in our previous audit comments.

We recommend the Village assure that all disbursements have at least two (2) authorized signers to ensure efficiency in processing of transactions and to strengthen the internal control systems.

CAPITAL ASSET MANAGEMENT POLICY

During discussions with management, we noted that the Village has not formally implemented written procedures and policies for capital asset management. We believe that by documenting specific policies, employees will have a clearer understanding of the Council's expectations. We also believe that such documentation will provide greater internal control.

We recommend that the Village adopt a policy for the capitalization and disposal of capital assets. The policy should specify criteria for capitalizing assets, including the per unit dollar value threshold to be used. Items below the threshold established by the Council may be expensed as they are purchased. The policy should also specify that the disposal of capital assets requires formal approval by the Village Council. Such approval should be documented in the minutes of the Council meetings.

CHART OF ACCOUNTS

During the course of our audit, it was noted that the Village's Major and Local Street funds had not been following the State chart of accounts and properly breaking out routine and snow and ice maintenance expenditures as required by the State chart of accounts. This breakdown is also what is necessary to prepare the Department of Transportation's Act 51 report. This issue had been noted and reported in the previous audit comments.

We recommend the Village follow the State chart of accounts for all funds and make appropriate modifications to the existing accounting system or implement a new accounting system to satisfy this issue.

A material weakness is a condition in which the design or operation of one (1) or more of the internal control elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal controls would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, the reportable conditions described above are not believed to be material weaknesses.

This report is intended solely for the information of management, the President, and Members of the Village Council of the Village of Hubbardston and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 23, 2005